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the Russian Zone

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1. Following the currency reform in eastern and western Germany, the tendency of businessmen in the Russian Zone to transfer either their whole business, or at least part of their capital and capital equipment to the west has been further intensified.
2. The first requirement for such transfers is interzonal trade. Apart from small food parcels which their western German business friends send or bring, and which under current eastern Zone food conditions are strong business incentives, the business connection with the west opens a number of transfer possibilities, the most widespread of which appear to be the following:
 - a. Shipment of capital equipment labeled as goods sold in interzonal trade.
 - b. Fictitious billing of goods shipped. Bills are made out for less than the real value of goods shipped. This has the dual advantage that deliveries will be more easily agreed to by the land economic ministry concerned, and that less must be paid in the eastern zone. (See C below).
 - c. Fictitious payment of bills. In the absence of post-currency reform clearing agreements, all payments must be made by western zone debtors in eastern zone currency. Where the western zone debtor has not accumulated a bank account in the eastern zone in anticipation of this situation, the seller himself, often out of black assets, will put the required funds at the debtor's disposal. The debtor credits him with western D-Marks (at a conversion rate varying from 1:1 to 1:5), either by holding the funds in trust, or by depositing them in western zone banks. In addition, the difference between the real value of the merchandise and the amount billed, is similarly credited. There is so far nothing to prevent eastern zone enterprises from maintaining D-Marks accounts in the west; SAGs who depend for their production on western zone goods are among the largest depositors. Flight capital, however, appears to prefer private arrangements in anticipation of legal restrictions to protect the weaker eastern mark.

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- 2 -

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d. Circumvention of transportation and blockade difficulties by shipment to Berlin, illegal transfer into the US Sector, shipment to the western Zones through American Overseas Airlines.

e. Shipment of machinery broken down into 1 kilogram "sample" parcels.

f. Fictitious moves of business enterprises from one place in the eastern Zone to another. Plants are ostensibly moved, buildings in the new place actually erected to house them, trade registration formalities complied with. Then the machinery is crated for movement and spirited across the border to find new employment somewhere in western Germany.

3. The trend toward the flight of capital and capital equipment from the eastern Zone from all reports appears to be as strong as legal and illegal facilities permit. The threat of expropriation and dismantling has furnished sufficient motives in the past; now the economic differential created by the currency reforms has added urgency. It is facilitated by the strong tie of confidence between eastern and western German businessmen, which make unwritten and illegal agreements prevalent.

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